

Sygnus Credit Investments Limited (SCI)

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Executive Summary

Sygnus Credit Investments Limited, an international business company incorporated under the International Business Companies Act, 1999 of St. Lucia, is seeking to raise US\$10,000,000.01 through the sale of 90,909,091 shares in the company. SCI is a specialty investment firm that targets private credit investments in medium-sized firms across the Caribbean region. The Company offers an alternative to traditional financing by providing more customizable and flexible financing options for target companies. We recommend Sygnus as **OVERWEIGHT**, as we believe the offer is priced below its fair value and provides a unique investment opportunity to potential investors.

Offer Details

Issuer	Sygnus Credit Investments Limited (SCI)
Issue	90,909,091 ordinary shares (inclusive of 40,000,000 reserved shares) for a total capitalization of US\$10,000,000.01. Two classes of shares are available for subscription, J\$ and US\$ shares.
Subscription Price	US\$0.11 per US\$ Share and J\$13.72 per J\$ Share. Reserve Shares will be available for subscription by Existing Shareholders and Sygnus Employees at the subscription price of US\$0.105 per US\$ Share or J\$13.10 per J\$ Share.
Minimum Subscription	1,000 shares
Lead Arranger	Sygnus Capital Limited
Co-Arranger, Lead Broker and Underwriter	Sagicor Investments Jamaica Limited. Up to 45,454,545 shares are being underwritten by Sagicor
Use of Proceeds	To invest in credit instruments issued by medium-sized firms and to pay IPO expenses.
Dividend Policy	The Directors intend to distribute up to 85% of SCI's net income to stockholders in the form of quarterly cash dividends.
Listing	The Company intends to apply to the JSE for the listing on the Main Market
Timetable of Key Dates	Opening Date: 9:00 A.M. May 2, 2018 Closing Date: 4:30 P.M. May 16, 2018

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Post-IPO Shareholdings

Shareholder	Shareholding	Percentage Ownership
Investment Manager (SCM)	1 Special Share	0.00%
Investment Manager (SCM)	5,400,000 Ordinary Shares	2.16%
Existing Shareholders	153,869,523 Ordinary Shares	61.50%
Reserve Share Applicants	40,000,000 Ordinary Shares	15.99%
Members of the Public	50,909,091 Ordinary Shares	20.35%
Total	250,178,614 Ordinary Shares	100.00%

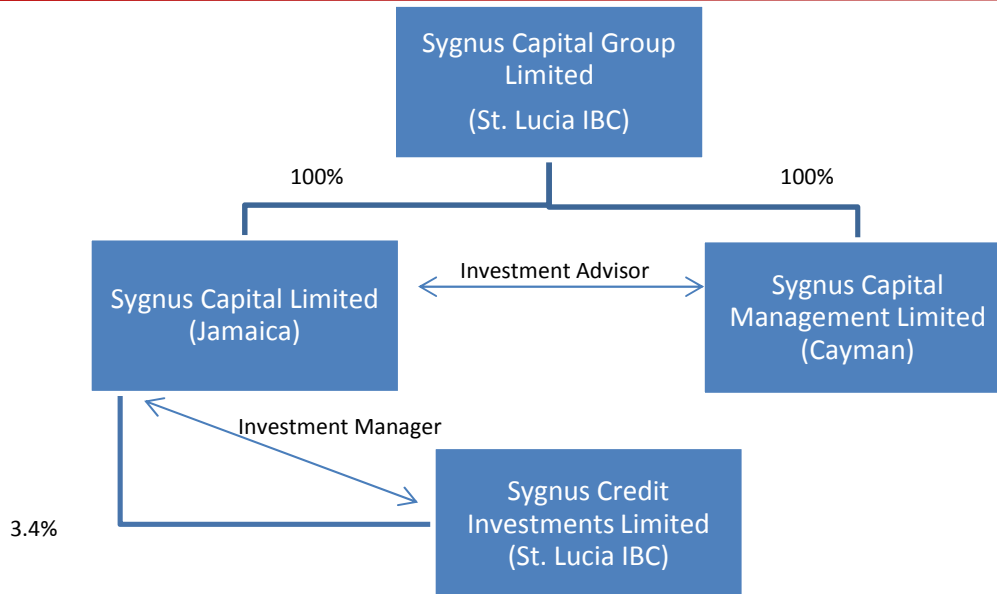
Company Overview

Sygnus Credit Investments Limited is a specialty Private Credit Investment Company focused on providing non-traditional financing to medium-sized entities across the Caribbean. The type of credit SCI provides is customizable and more flexible than traditional financing options, which allows the Company to offer an alternative channel through which mid-sized firms can access capital to drive growth.

The Company's goal is to generate attractive risk-adjusted returns with an emphasis on principal protection by targeting current income, with a lesser focus on capital appreciation. SCI invests primarily in private credit instruments such as: bilateral notes and bonds; preference shares; asset-backed debt; mezzanine debt; convertible debt. Investments are made in portfolio companies which operate across a broad range of sectors inclusive of: manufacturing; distribution; financial services; energy; real estate; transportation; infrastructure; and business services. The companies typically generate revenues between US\$5M and US\$25M.

SCI's investment activities are managed by its Investment Manager, Sygnus Capital Management (SCM), acting on the advice of the Investment Advisor, Sygnus Capital Limited (SCL), both of which are wholly owned subsidiaries of Sygnus Capital Group Limited. SCL's services include: advice and assistance in order to identify and evaluate potential investments to be made by clients of SCM; monitor the performance of SCM's client investments; and execute on behalf of SCM clients any transaction approved by SCM.

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Board of Directors

Name	Position	Bio
Clement Wainwright Iton, B.Sc., M.B.A	Chairman	Former Chief Executive Officer of the Trinidad and Tobago Securities and Exchange Commission (TTSEC); Former Chief Executive Officer of the Trinidad and Tobago Stock Exchange (TTSE); Former General Manager of the Jamaica Stock Exchange (JSE); Former Project Manager and Corporate Planning Analyst at Grace Kennedy.
Nakita Edwards, CFA, FCCA, CPA	Non-executive Director	Nakita Edwards is a Tax, Accounting, Audit, Finance and Development Specialist with experience working throughout the Caribbean with a variety of private sector companies, state corporations and statutory bodies in various industries. She is also a director and Co-founder of DCIC Professional Services.
Ian Williams, B.Sc., M.B.A	Non-executive Director	Ian Williams is currently the President and CEO of ZNW Management and Consultancy Limited. Ian works with companies that do not have a presence across the Caribbean market to help establish new relationships and sales in the region. Previously, Ian worked with CIBC FirstCaribbean International Bank (FCIB) for 15 years primarily within Treasury. Prior to leaving the FCIB Ian was the Director and Head of Foreign Exchange Sales.
Peter Thompson,	Non-executive	Peter is a Senior Investment Manager, Pension and Client Portfolios at JMMB Ltd where he is responsible for the build out of the process

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CFA, M.Sc.	Director	and structures for the management and service delivery for client portfolios of JMMB. Previously he was Manager, Group Product Portfolio and Business Development Manager JMMB Ltd.
Damian Chin, B.A., M.Sc.	Non-executive Director	Damian is currently the Deputy Director, Finance and Planning at Sandals Resort International. Previously he was a consultant at Paul Chen Young & Associates and a Financial Analyst at First Fidelity Bank in New Jersey.
Hope Fisher, B.Sc.		Hope Fisher is a Civil Servant with the Ministry of Labour & Social Security where she is currently the Director of the Bond Portfolio at the National Insurance Fund (“NIF”). She has responsibility for monitoring of the fixed income portfolio and developing the strategy to capitalise on investment opportunities.
Ike Johnson, PhD, CFA, FRM	Non-executive Director	Managing Director of Sygnus Capital Management. Chief Operating Officer and Head of M&A Advisory and Strategy at Sygnus Capital Limited. Former Assistant VP of Business Analytics and Product Development at Scotia Investments Jamaica; former Senior Strategy Management Officer and former Market Risk Analyst at JMMB Group.

Capital Structure

Class of shares:

- ✚ Special share – a special rights redeemable preference share that gives the holder one vote that is equivalent to 101% of the aggregate votes vested in all ordinary shares issued by the Company but no right to dividend or to receive any distribution of assets on winding-up except the US\$1.00 which was subscribed for the Special Share;
- ✚ US\$ shares – Every holder of a US\$ Share will have one vote for each share of which he holds. Holders of US\$ Shares will have the usual right to receive dividends and to participate in the assets of the Company on a winding-up. Each US\$ Share has a par value of US\$0.01;
- ✚ J\$ Shares - Every holder of a J\$ Share will have one vote for each share of which he holds. Holders of J\$ Shares will have the usual right to receive dividends and to participate in the assets of the Company on a winding-up. Each J\$ Share has a par value of J\$1.30;
- ✚ TT\$ Shares - Every holder of a TT\$ Share will have one vote for each share of which he holds. Holders of TT\$ Shares will have the usual right to receive dividends and to

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participate in the assets of the Company on a winding-up. Each TT\$ Share has a par value of TT\$0.07.

Fee Structure

SCI will pay a management fee of 1.9% of assets under management and a performance fee of 15% of return on average equity above the hurdle rate of 6% to the Investment Manager, Sygnus Capital Management. The management fee will be paid monthly and the performance fee annually. The Investment Manager will bear its own operating and overhead expenses attributable to its duties while other expenses incurred by SCM in its management of SCI's affairs such as service provider, legal fees and travelling fees will be borne by the Company. Fees paid to the investment advisor (SCL) will be paid out of the assets of SCM's clients, which include the Company.

The fees payable to SCM may be reduced by a shareholders' resolution if the company fails to make an invitation to redeem shares at certain time intervals or fails to redeem shares which is obliged to redeem pursuant to any invitation and such failure was not caused by a Material Adverse Event.

Share Buy-Back Program

After the fifth anniversary date, SCI will invite shareholders to offer for sale their shares of an aggregate value that will not exceed more than 15% of the Net Asset Value. After the initial invitation, similar invitations will be made every three years following the fifth anniversary date. If in response to any such invitation offers are received for more shares than SCI is obligated to repurchase then acceptances by SCI will be scaled back on a pro rata basis based on the offers received. These invitations are subject to the availability of distributable profits or proceeds from the fresh issue of shares.

If SCI fails to make any such invitation or fails to repurchase shares which it is obligated to pursuant to an invitation, any one or more of SCI's shareholders holding not less than 10% of the issued shares of the Company may request a meeting to consider a resolution to reduce the management fees payable to the Investment Manager. In such a vote, the holder of the special share will not be entitled to vote on such a resolution.



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Investment Activity

SCI began operations in July 2017 and has raised approximately US\$16M in capital from institutional and accredited investors with more than 66% coming from institutional investors. As at December 31, 2017, SCI had US\$16.7M in total assets and had US\$11.1M invested in four portfolio companies in: energy distribution, beverage manufacturing, commodity distribution and consumer food distribution.

SCI stated that at current pace it was sourcing and investing an average of US\$1.9M in transactions per month. The average initial investment in each portfolio is US\$2.8M for an average term of 3.1 years. The investment in portfolio companies is currently yielding 10.3% while the un-deployed cash held in short-term instruments and bank balances is earning a yield of 3.8%.

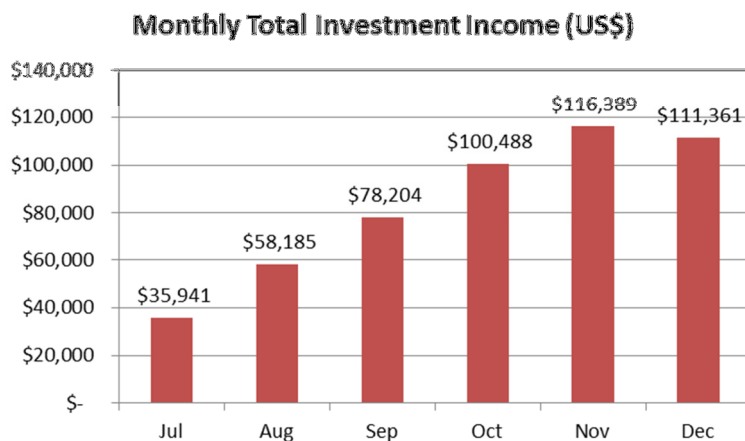
This return consists only of current income and does not yet factor in additional upside potential that may arise from profit participation or other upside structures. Almost 60% of the initial investment in portfolio companies is structured with profit participation features. SCI may also generate additional upside from investments over the medium-to-long term if certain events are triggered, such as the partial conversion of private credit investment to equity prior to an IPO of a portfolio company. However, SCI cautioned in its prospectus that such occurrences would be extremely low probability events.

Financial Performance (USD) – Six Months ended December 31, 2017

Profitability

Although SCI was incorporated on January 13, 2017, operations began on July 1, 2017. For the six months period ended December 31, 2017. SCI generated total income of \$748.27K, driven by core earnings of \$493.07K in interest income. Commission income amounted to \$7.5K while net foreign exchange gains of \$247.71K were recorded for the period, driven by the appreciation of the Jamaican dollar versus the US dollar. This performance resulted in net profit of \$660.86K while total comprehensive income amounted to \$941.55K following unrealised gains on available-for-sale investments of \$280.7K.

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Total interest income consisted of \$369.32K in income from investment in four portfolio companies, \$121.42K in income from other investments of repurchase agreements and \$2.33K in income from interest on bank balances. Monthly investment income moved from \$35.94K in July 2017 to \$111.36K in December 2017 as the company increased its investment portfolio.

Operating expenses amounted to \$87.42K, of which the largest individual expense (24%) was professional fees of \$21.36K. SCI also recorded \$20.0K in audit fees, \$10.55K in accounting fees and \$11.2K in registration fees. Directors' fees and related expenses amounted to \$10.8K while \$11.5K in irrecoverable withholding tax. Prior to the start of operations in July 2017, a total of \$11.6K in expenses was incurred for registrar fees (\$5,951), audit fees (\$5,000) and bank charges (\$651).

It is important to note that while some of the expenses were related to the setting up of the company and are unlikely to be ongoing in the future, there were no management fees charged during the first six months of operations. Management fees came into effect from January 2018 and no performance fees are due.

Liquidity & Solvency

Total assets amounted to \$16.7M, mainly constituted of \$11.56M in investments and \$4.87M in un-deployed cash. Un-deployed cash was split between \$4.64M in securities purchased under resale agreements and \$226.81K in cash and cash equivalents. Interest receivable amounted to \$253.42K. Total long-term investments in portfolio companies amounted to \$6.95M while short-term investments amounted to \$4.6M.

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Assets were funded by \$16.66M in shareholders' equity and \$46.36K in liabilities. Share capital amounted to \$15.71M with fair value reserve of \$280.7K and \$660.86K in retained earnings. Liabilities consisted of \$30.36K in accounts payable and \$16.0K due to related company.

Outlook & Valuation

SCI is offering risk-adjusted returns from exposure to the private credit market, a sector with limited investment opportunities for Jamaican investors. The market is typically comprised of institutional and high-net worth investors who are seeking income but with a low minimum subscription, retail clients have an opportunity to participate.

This offer is most suitable for those investors who are seeking income given SCI's stated intent to pay up to 85% of its net earnings as dividends on a quarterly basis. As an International Business Company incorporated in St. Lucia, SCI benefits from the CARICOM double taxation treaty and is subject to corporate income tax of only 1%. Dividends paid by the company to Jamaican residents and other residents of countries party to the treaty will be taxed at a zero rate and will not be taxed in Jamaica or in any other CARICOM treaty country in which the shareholder resides.

Given the unique structure of SCI, the diversification of a potential investor's portfolio should be improved as they are exposing themselves to: asset class, sector, region and currency diversification. However, we do not expect extremely high rates of growth given the company is focused on credit investments and plans to pay-out out such a high proportion of profits to shareholders.

Valuation

If the offer is fully subscribed, SCI's book value would increase to US\$26.19M, which corresponds to a book value per share of US\$0.10 and a price to book value of 1.05x. Investors would therefore be paying just slightly above the book value of the Company, which is fair and consistent with the standard for financial companies. Eppley Limited is the most direct comparison to SCI given the similarities in private credit as a source of income. Eppley's price to book ratio currently sits around 2.61x, however, Eppley is listed on the Junior Market and is a smaller company, and as such is expected to have higher price multiples than a company which will list on the Main Market of the Jamaica Stock Exchange. The harmonic mean (utilized due to outliers such as JSE and VMIL) of the Main Market's finance sector price-to-book value is 1.34x which when applied to the \$0.10 book value per share yields a price of US\$0.14, a 27.2% positive differential to the offer price.

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Potential investors should be mindful of the clause in the Share Buy-Back program which stipulates that the invitation to sell back shares to the company will be made a price equivalent to the net asset value of the shares at the time of offer. As such, trading significantly above book with an intention to exit at such a time is a risky trading strategy.

Recommendation

We recommend Sygnus as **OVERWEIGHT** as we believe the offer is priced below its fair value and provides a unique investment opportunity to potential investors. Sygnus offers diversification into a unique asset class that has exposures across various productive sectors, across the Caribbean region and in multiple currencies. This investment is suitable for investors with a medium term outlook who are primarily interested in income-generation, as SCI projects to pay a dividend pay-out ratio as high as 85%. The primary risk faced by the company is credit risk and the extent to which the company is exposed to this risk is SCI's ability to properly assess the credit investments it makes in target companies.

Source: <http://www.Jamstockex.com>, JMMB Investment & Research, Bloomberg, IPO Prospectus Document

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APPENDIX

IMPORTANT DISCLOSURES

ABSTRACT—As a part of our new Portfolio Strategy we are recommending strict adherence to the following Portfolio Allocation **DEFINITIONS/RECOMMENDATIONS**.

PLEASE NOTE THAT NO INDIVIDUAL ASSET IN YOUR PORTFOLIO SHOULD HAVE A WEIGHTING GREATER THAN 5% UNLESS OTHERWISE RECOMMENDED BY YOUR PORTFOLIO MANAGER OR A SPECIFIC JMMB RESEARCH REPORT. CONSEQUENTLY THE FOLLOWING **DEFINITIONS** ARE PROVIDED FOR CLARITY.

UNDERWEIGHT—REDUCE EXPOSURE IN YOUR PORTFOLIO TO LESS THAN 5% FOR THIS PARTICULAR ASSET

SELL—REDUCE EXPOSURE IN YOUR PORTFOLIO TO ZERO.

HOLD/MARKETWEIGHT—EXPOSURE TO THE ASSET SHOULD BE EQUAL TO 5% OF YOUR TOTAL PORTFOLIO HELD AT JMMB.

OVERWEIGHT/BUY—EXPOSURE TO THIS ASSET SHOULD BE BETWEEN 5% AND 10% OF YOUR TOTAL PORTFOLIO HELD AT JMMB

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